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FM AMEMBASSY ASHGABAT

TO RUEHC/SECSTATE WASHDC PRIORITY 2541

INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE PRIORITY

RUCNCIS/CIS COLLECTIVE PRIORITY

RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY

RUEHAK/AMEMBASSY ANKARA PRIORITY 4992

RUEHBJ/AMEMBASSY BEIJING PRIORITY 2750

RUEHKO/AMEMBASSY TOKYO PRIORITY 2615

RUEHIT/AMCONSUL ISTANBUL PRIORITY 3236

RHMFIS/CDR USCENTCOM MACDILL AFB FL PRIORITY

RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY

RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY

RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

RUEHBS/USEU BRUSSELS PRIORITY

RHEHNSC/NSC WASHDC PRIORITY

RHEFDIA/DIA WASHDC PRIORITY

RUEAIIA/CIA WASHDC PRIORITY

RUEKJCS/JOINT STAFF WASHDC PRIORITY

RUEKJCS/SECDEF WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 000387

SIPDIS

SCA/CEN; EEB

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ENERGY FOR EKIMOFF/THOMPSON

COMMERCE FOR HUEPER

E.O. 12958: DECL: 03/25/2019

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SUBJECT: TURKMENISTAN: NOT WELL-MANAGED, BUT STILL  
FINANCIALLY STABLE, ACCORDING TO EBRD

Classified By: DCM Sylvia Reed Curran for reasons 1.4 (b) and (d).

11. (C) SUMMARY: The EBRD's country manager recently painted a fairly stable picture of Turkmenistan's financial condition, in spite of the continuing global crisis. The EBRD, though not a significant player here, is hoping to do more to promote the development of small- and medium-sized businesses and some form of privatization. He noted that the country's economy is expected to enjoy continued annual growth of about ten percent, and that the crisis has thus far appeared to have little impact. He expressed concern that finance-related ministries do not communicate with energy ministries, who could potentially warn them of approaching declines in revenue due to fluctuations on the world energy market. The EBRD official's perspective on the country's financial leaders suggests that the relevant ministries could have difficulty keeping up with future developments in the global financial turmoil, much less engage in efforts to protect the national economy from its ill effects. Ultimately, however, Turkmenistan will probably continue to "muddle through." END SUMMARY.

EBRD SEEKING TO HELP SMALL BUSINESSES

12. (C) A visiting scholar from the U.S.-based Center for Strategic and International Studies met with European Bank for Reconstruction and Development Country Director Neil McKain on March 16 to hear his views on the investment climate in Turkmenistan and prospects for oil and gas development. Saying a few words about EBRD's current activities in Turkmenistan, McKain said that EBRD was currently only servicing modest loan projects that date back some eight years. The EBRD, however, has been negotiating with Turkmen officials to approve a new project that would promote the development of small- and medium-sized businesses. He said they hope to sign an agreement with the government by June 2009. The project will provide investment capital for a handful of small food production companies and a supermarket chain, he added.

13. (C) Regarding potential EBRD investment projects related to oil and gas, McKain offered that "niche" projects on ecology or energy efficiency would be the strongest contenders in Turkmenistan in the near term. He said EBRD would like to conduct a nationwide audit of energy use to demonstrate to government officials how they might reduce domestic consumption, but there are no concrete plans to do that yet.

#### LITTLE AWARENESS OF GLOBAL ENERGY PRICE FLUCTUATIONS

14. (C) When asked his opinion regarding the Turkmen understanding of the current hydrocarbon market fluctuations, McKain said Turkmen officials have not demonstrated any awareness that European gas prices are likely to drop soon in the medium term. He noted that the heads of ministries do not communicate with each other, so, for example, the Finance Ministry is unlikely to have received any warning from the Oil and Gas Ministry that it should anticipate a drop in export prices. Communication also does not take place from the bottom up within the government, nor can private business people communicate with top leadership, he added.

#### NOT WELL MANAGED, BUT "MUDDLING THROUGH" JUST FINE

15. (C) McKain said that EBRD was still estimating Turkmenistan's economic growth at about ten percent next year, and the year after. This, he said, means Turkmenistan will not be cash strapped any time soon. While the country

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will feel the effects of changes in global oil and gas prices, it will nevertheless continue to be in good financial condition and able to cope. When asked who he thought President Berdimuhammedov's closest economic advisors were, McKain opined that they were presidential administration officials Victor Khramov, Alexander Jadan and V. Umnov. (COMMENT: McKain did not explain why he thought these shadowy figures dating from the Niyazov period were providing economic advice. END COMMENT.)

#### FURTHER ECONOMIC REFORM WOULD HELP

16. (C) EBRD has been encouraged by modest economic reforms that the President has initiated over the last two years, McKain said. The President made some encouraging remarks on agricultural reform at the recent Council of Elders meeting, and EBRD is hopeful that some land use reform will be part of that. Currently, farmers can only rent land for one year at a time, but the government may extend the rental period. A commercial entity recently rented a pier on the Caspian near the president's seaside palace that designated a 13-year lease period, he said, which is a sign of progress.

17. (C) McKain said the reforms that EBRD would like to see unfold here include development of a more simplified raw materials or commodities exchange system, with a functioning commercial charges registry supported by agencies that do not exist now. EBRD would also be encouraged by the privatization of some state enterprises, he said.

18. (C) COMMENT: EBRD seems confident that Turkmenistan is in solid financial condition, in spite of the global financial crisis and instability in world oil and gas prices. However, his window into financial decision-making suggests that the relevant ministries might have difficulty over the long term in keeping up with global financial turmoil, much less engaging in efforts to protect the national economy from its ill effects. While Turkmenistan itself may not be directly feeling the pinch, major economic partners such as Russia, in coming months, could potentially pass along some of the unpleasant symptoms of the crisis, like cuts in capital investment flows or price increases for food imports. Ultimately, however, Turkmenistan will likely continue to "muddle through," as it has done for some time. END COMMENT.

MILES